

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Senate Bill 1692

Senator Ortiz (As amended 5/3/00)

Position:

Support

Proponents:

CFT, CRTA, CTA and FAIR

Opponents:

None known

SUMMARY

SB 1692 enhances benefits to members of the California State Teachers' Retirement System (CalSTRS) who retired for service before January 1, 1999, reinstate as active members for at least one year and subsequently retire. Based on the benefits currently in effect, those members with more than 30 years of service credit would receive benefits recalculated to include the career bonus enhancements. Those members over the age of 60 would receive benefits recalculated to include the current age factor, subtracting from the age of their subsequent retirement the amount of time they were retired. This is an urgency bill, which would take effect immediately.

HISTORY

SB 833 (Ortiz, 1999), vetoed by Governor Davis, would have provided CalSTRS members who retired in 1998, or received their first check in 1998, the benefit enhancements available to members who retired after 1999, such as an increased age factor and a career bonus. The bill also would have increased the benefits of those members who are (1) currently retired but return to service, and (2) whose total credited service equaled or exceeded 30 years, to reflect the "career bonus" in their entire allowance. In his veto message, Governor Davis expressed his concerns about extending the 1999 benefit increases to members who had retired in 1998. The Governor did, however, state that he would consider other proposals which would aid in the recruitment and retention of qualified teachers.

CURRENT PRACTICE

The CalSTRS retirement allowance is based on years of credited service, age at retirement, and final compensation. A member retiring at the age of 60 receives an allowance equal to 2 percent of final compensation for each year of credited service. This percentage is reduced if the member retires before age 60. The percentage for a member retiring on or after January 1, 1999 increases for service performed after age 60, up to a maximum of 2.4 percent at age 63.

An additional allowance of two-tenths of one percent of final compensation for each year of credited service, up to a maximum age factor and career bonus of 2.4 percent, is also payable to members who have earned 30 or more years of credited service and who retire on or after January 1, 1999. The additional .2 percent is generally referred to as the "career bonus." Currently, a member who has terminated a service retirement allowance may, at least one year

after the termination of the initial allowance, subsequently retire. Upon the subsequent retirement, the member would receive the sum of (1) the allowance the member was receiving at the time of the initial termination, including any two percent cost-of-living-adjustments (COLA) that would have been paid and (2) an allowance based on the age and final compensation factors prescribed in current law for the credited service performed subsequent to termination of the original retirement.

DISCUSSION

More than 7,200 CalSTRS members retired in fiscal year 1998-1999, and, according to the author, this has increased the shortage of teachers. The stated intent of this bill is to address the statewide shortage of qualified teachers, and provide an incentive for currently retired teachers to reinstate.

This bill increases the retirement allowance for a member who retired for service prior to January 1, 1999, and reinstated for at least one year of credited service. Upon a subsequent retirement prior to January 1, 2005, the member would receive the sum of:

- 1) an allowance based on the member's prior service and age at the subsequent retirement, minus the number of years retired, and
- 2) an allowance based on the member's age at the subsequent retirement, for the credited service performed subsequent to termination of the original retirement.

The final compensation of the earlier service and the age factors currently in effect would be used as a basis to calculate both allowances.

For example, if a member

- 1) retired in 1998 at age 61
- 2) after 30 years of service and
- 3) a \$4,000 final compensation,
- 4) reinstated in 2001
- 5) after being retired for three years,
- 6) taught an additional year and
- 7) re-retired in 2002 at age 65,

The allowance the member would receive after re-retiring under current law would be:

2.00% (the age factor for age 61 in effect in 1998) x 30 years x \$4,000 = \$2,400 + \$144
in subsequent COLA's = \$2,544

plus

2.40% (the age factor in effect in 2002) x 1 year x \$4,000 = \$96, for a total allowance of
\$2,640 per month

Under SB 1692, the same member would receive the following allowance after re-retiring:

2.40% (the age factor in effect in 2002, including the career bonus, for the adjusted age (age 65 at the second retirement minus the 3 years retired, or age 62) x 30 years x \$4,000 = \$2,880

plus

2.40% (the age factor in effect in 2002) x 1 year x \$4,000 = \$96, for a total allowance of \$2,976 per month

In addition, under current law, the highest three consecutive years of earnable compensation during a member's entire career is used to determine final compensation when calculating the allowance attributable to the subsequent service with an ongoing total. This bill requires the final compensation be based on the prior service, even if it is lower than the earnable in the subsequent service.

Approximately 6,000 members retired in 1998 who would have gained from the benefit enhancements that became effective January 1, 1999. Past experience has shown that approximately 50 members reinstate from service retirement and 50 re-retire annually, and approximately 200 members are reinstated at any one time. Approximately 100 members reinstated to active status during 1999, perhaps in anticipation of enactment of SB 833. If this bill is enacted, there could be an increase of reinstatements from approximately 50 per year to 500 for two or more years after enactment.

In order to simplify plan administration and encourage retired teachers to reinstate in the future, the bill should be amended to make this proposal the standard means of calculating benefits after multiple retirements. The additional cost of this change should be minimal because members affected by this extension would have already retired under the career bonus and the increased age factor.

FISCAL IMPACT

Benefit Program Costs – According to preliminary estimates by the actuary, and assuming that 500 retired members would return to active service, the present value of the increased benefit would be approximately \$9 million. This estimate assumes that members who reinstate will only work one year to be eligible for the benefit increase. In addition, the actuary estimates that one-half of the reinstatements will receive the career bonus.

	Present value cost (in millions)	Percent of pay to fund
Normal cost increase of future service	N/A	N/A
Actuarial obligation for prior service	\$9	.004%
Total costs	\$9	.004%

This actuarial impact would result in the following expenditures over the first three full fiscal years (in millions of dollars):

	2001-02	2002-03	2003-04
Total benefit payment increase	\$.7	\$.8	\$.8
Annual increase in contributions (funding) needed to fund benefit	\$1	\$1	\$1

Administrative Costs – CalSTRS anticipates that it could absorb any increased administrative costs, (estimated to be less than \$50,000) to implement the benefit increases in this bill.

POSITION

Support, but seek amendments to clarify technical aspects of the bill. The Board also should seek amendments to remove the sunset date, and make this proposal the standard method to address multiple retirements. SB 1692 would provide a reasonable opportunity for members who retired before 1999 to increase their benefits in a manner that attempts to address the Governor's concern with prior legislation.